

Varun Beverages

BSE SENSEX
73,097

S&P CNX
22,147

CMP: INR1,418 TP: INR1,600 (+13%)

Buy



Stock Info

Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USDb)	1842.1 / 22.2
52-Week Range (INR)	1562 / 633
1, 6, 12 Rel. Per (%)	-2/45/86
12M Avg Val (INR m)	2389
Free float (%)	36.9

Financials Snapshot (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	200.1	244.2	284.2
EBITDA	44.7	55.0	65.3
Adj. PAT	25.8	34.1	43.2
EBITDA Margin (%)	22.3	22.5	23.0
Cons. Adj. EPS (INR)	19.8	26.3	33.3
EPS Gr. (%)	25.3	32.5	26.7
BV/Sh. (INR)	70.7	94.5	124.7

Ratios

	2024E	2025E	2026E
Net D:E	0.6	0.2	-0.1
RoE (%)	31.9	31.8	30.3
RoCE (%)	21.7	24.8	28.4
Payout (%)	12.6	9.5	7.5

Valuations

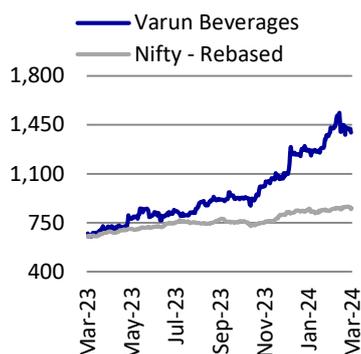
	2024E	2025E	2026E
P/E (x)	71.3	53.9	42.5
EV/EBITDA (x)	42.3	33.9	27.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.1	1.8	2.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	63.1	63.1	63.9
DII	3.6	3.4	3.4
FII	26.6	27.6	26.5
Others	6.8	6.5	6.2

FII Includes depository receipts

Stock performance (one-year)



Journey of resilient growth and strategic advancements

Varun Beverages (VBL) experienced a sustained period (CY19-23) of robust revenue growth momentum (with a revenue/sales volume CAGR of ~22%/17%), aided by the company's expansion into new geographical markets, the diversification of product portfolio, strengthening of the distribution network, efficient manufacturing capabilities, and a favorable demand environment.

- To sustain the growth momentum, VBL has adopted a multi-pronged strategy for CY24, wherein it will focus on enhancing its manufacturing capability (to rise ~45% over CY22 capacity; and the capacity for dairy and juices set to triple), bolstering its distribution network (~3.8m retail outlets in CY23 vs. ~3m in CY22), and improving its geographical reach (domestically as well as internationally).
- Considering this incremental capacity, improved network, and newer geographies (include acquisition of BevCo), we expect VBL to sustain its strong revenue growth momentum over CY24-CY26 (est. ~21% CAGR over the period).
- Within the international market, VBL has signed an exclusive agreement to manufacture and package Cheetos in Morocco. We believe that going ahead, VBL will tap into the snack food market by targeting regions where PepsiCo lacks manufacturing facilities and relies on imports.
- Factoring the strong fundamentals and potential for future growth (expect 21%/22%/28% revenue/EBITDA/PAT CAGR over CY23-26), we retain our BUY rating for the stock.

Adopts multi-pronged strategy to sustain strong growth momentum

- VBL has witnessed strong revenue growth momentum over the past few years (revenue/sales volume CAGR of ~22%/17% over CY19-23). This growth has been driven by factors such as a large distribution network, expansion into new geographical markets, diversification of product portfolio, strong traction for new products (Sting accounts for ~14-15% of CY23 domestic sales volumes) and a favorable demand environment (in-home penetration of cold beverages increased to ~47% by May'23 as compared to ~38% in CY19).
- In order to sustain the growth momentum, the company has adopted a multi-pronged strategy for CY24, wherein it will focus on expansion and diversification of the manufacturing capability, strengthening of its distribution network, and improving its geographical reach (domestically as well as internationally).
- **Expanding manufacturing capabilities:** In CY23, VBL has commissioned two new facilities in Rajasthan and Madhya Pradesh and has further expanded its capacity at six existing locations (Pathankot, Kosi, Bharuch, Tirunelveli, Begusarai, and Guwahati) for a cumulative capex of INR16.5b (refer to exhibit 11).
- Subsequently, it has started production within the Maharashtra facility in Jan'24 and expects to complete its ongoing expansion projects before the peak season (summers) of CY24.

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- Accordingly, on a blended basis, VBL will increase its capacity (available for the peak season) by ~45% over the manufacturing capacity of CY22, with the capacity for value-added dairy products and juices to triple
- **Strengthening of Distribution Network:** VBL witnessed substantial growth in its distribution network (with a total reach of over 3.8m retail outlets in CY23 vs. over 3m/2m in CY22/CY21) and chilling infrastructure, further solidifying its strong presence in the market. Going ahead, VBL will focus on expanding its go-to markets by adding ~0.4-0.5m outlets each year.
- **Geographical Expansion:** VBL is expanding its reach both domestically (increasing its rural penetration) and internationally (recently acquired 100% equity stake in South African beverage company – BevCo, for INR13.2b) in order to explore into the untapped markets.
- The BevCo acquisition aligns perfectly with VBL strategic goals of significantly enhancing the presence in the African beverage market and is expected to yield substantial synergistic benefits in the future.
- Factoring this incremental capacity, improved distribution network and geographical expansion, we expect VBL to sustain its strong revenue growth momentum over CY23-CY26 (est. ~21% CAGR over the period).

Exploring snack food market to diversify into F&B business

- VBL has recently signed an exclusive agreement with Premier Nutrition Trading L.L.C Dubai (subsidiary of PepsiCo) to manufacture and package Cheetos in Morocco. Currently, PepsiCo is not manufacturing any of its snack products in the country.
- VBL anticipates investing ~INR1b in capex to establish manufacturing capacity for this venture, with the commercial production slated to commence from 1st May'25.
- Prior to this agreement, VBL has already entered into an agreement for distribution and selling 'Lays, Doritos and Cheetos' in Morocco.
- We believe, VBL is consciously accelerating its activities to tap into the food snacking market, which could potentially be a key growth driver for the company in the longer run.
- Globally, the snack food products market was valued at USD586b in CY22 and is expected to reach USD964b by CY32 (registering a CAGR of ~5% over the period), led by changing consumer lifestyles, increasing urbanization, and a growing preference for on-the-go food options.
- The snack food market in Africa is valued at ~USD52b in CY24 and is expected to clock ~10% CAGR over CY24-28.
- As of 2023, PepsiCo holds the top spot in the global snack food production, with the highest market share within the industry (Source : Ibis World)
- Going ahead, we are expecting more such announcements from VBL, especially within the African continent wherein PepsiCo does not have any manufacturing partner and relies on primarily on imports.

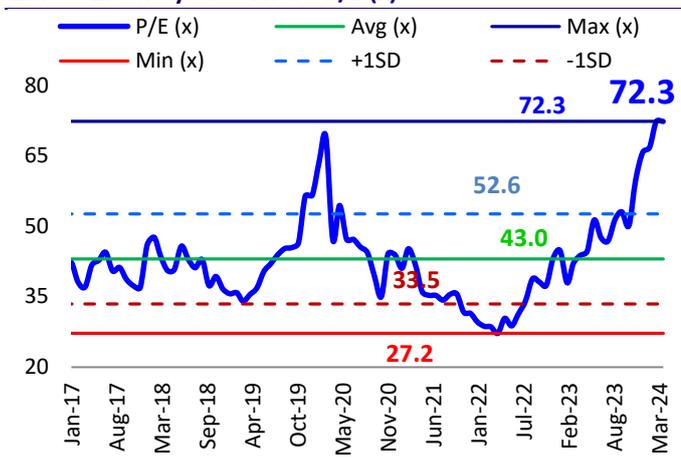
Focusing on sustainable growth path

- In line with VBL’s objective of sustainable growth, the company has achieved water usage ratio of ~1.54 times in CY23 (improvement of ~9% YoY). It aspires to reach ~1.4x by CY25.
- Considering environmental sustainability, VBL recycled ~86% of PET used in finished products (PET bottles, shrink film, plastic closures, labels and laminates) in CY23 vs. 80% in CY22 and intends to recycle ~100% by CY25. It has also established a target to incorporate 30% r-PET in the total PET packaging by CY25 through a joint venture (JV) with Indorama.
- Apart from this, the company has been working on reducing carbon footprint (~44% reduction per liter as compared to the base year CY20) and enhancing the usage renewable energy (consumed ~58m units from renewable resources; up 2.8x YoY).

Valuation and view

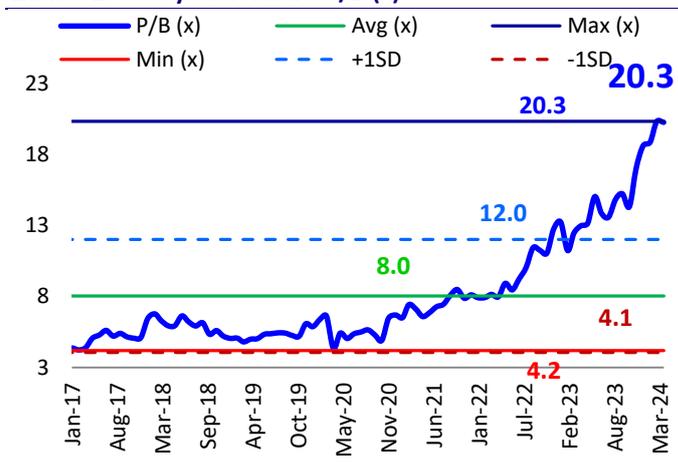
- We expect VBL to maintain its earnings momentum, aided by: 1) higher acceptance of newly launched products, 2) increased penetration in newly acquired territories in India and Africa, 3) continued expansion in capacity and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.
- Factoring the strong fundamentals and potential for future growth (expect 21%/22%/28% revenue/EBITDA/PAT CAGR over CY23-26), we retain our BUY rating for the stock. We value the stock at 57x Mar’26E EPS to arrive at a TP of INR1,600.

Exhibit 1: One-year forward P/E (x)



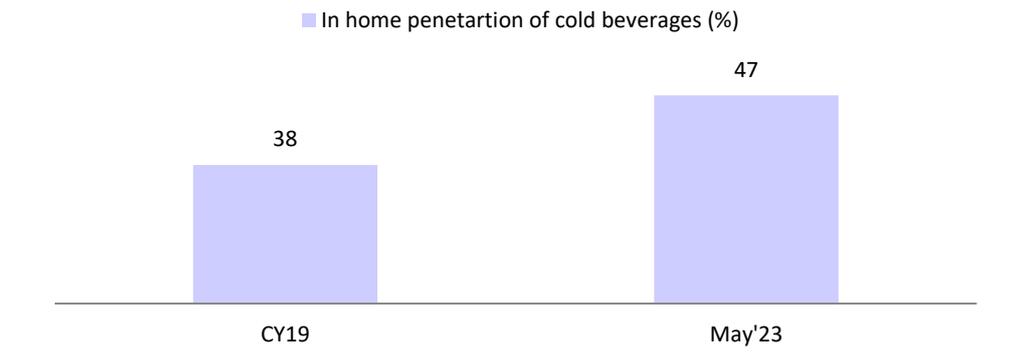
Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



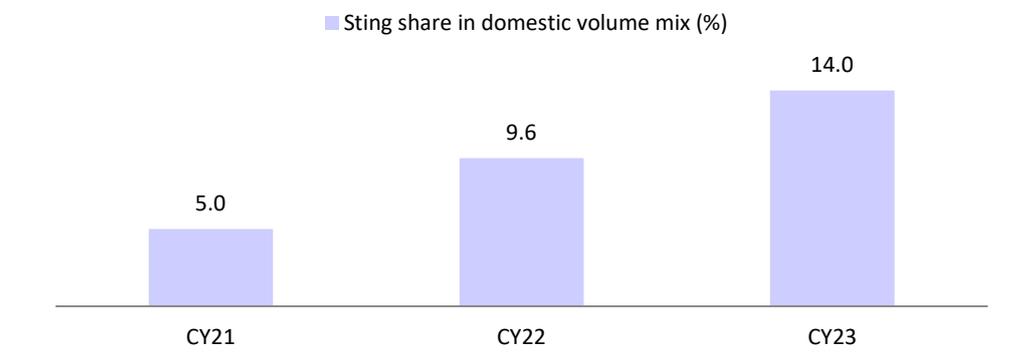
Source: Company, MOFSL

Exhibit 3: In-home penetration of cold beverages increased to ~47% by May'23



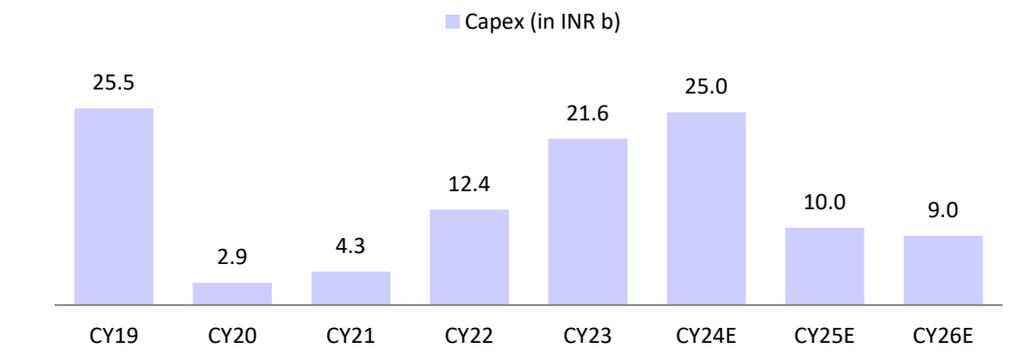
Source: Company, MOFSL

Exhibit 4: Increasing share of Sting (Energy drink) in domestic volume mix.



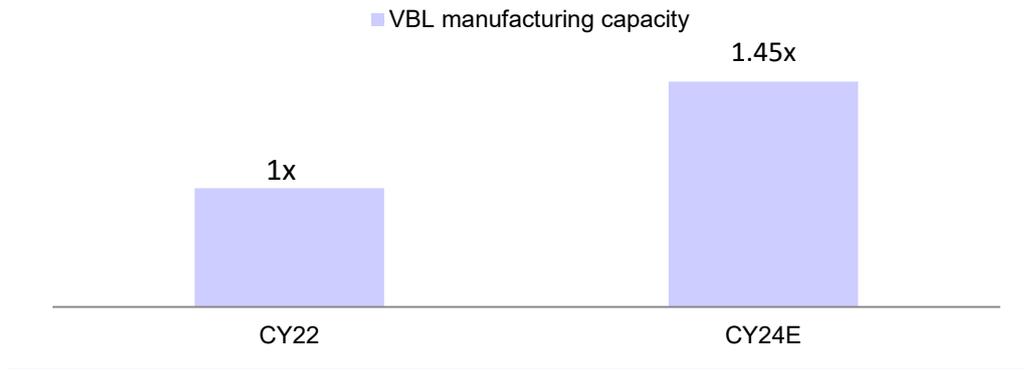
Source: Company, MOFSL

Exhibit 5: VBL incurred high capex in CY23/CY24...



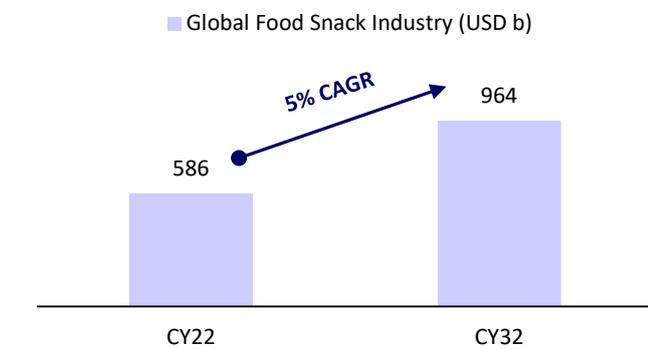
Source: Company, MOFSL

Exhibit 6: ...driving a 45% increase in manufacturing capability over CY22, for the peak season of CY24



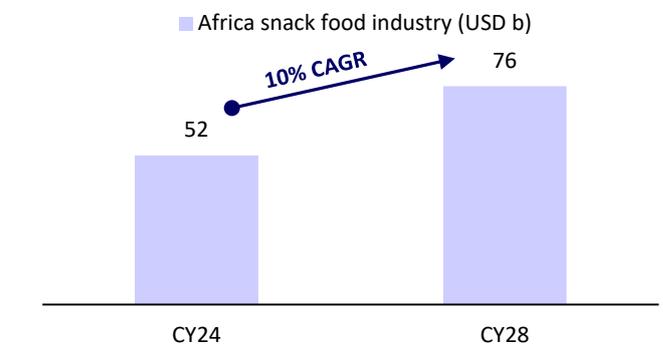
Source: Company, MOFSL

Exhibit 7: Global snack food industry



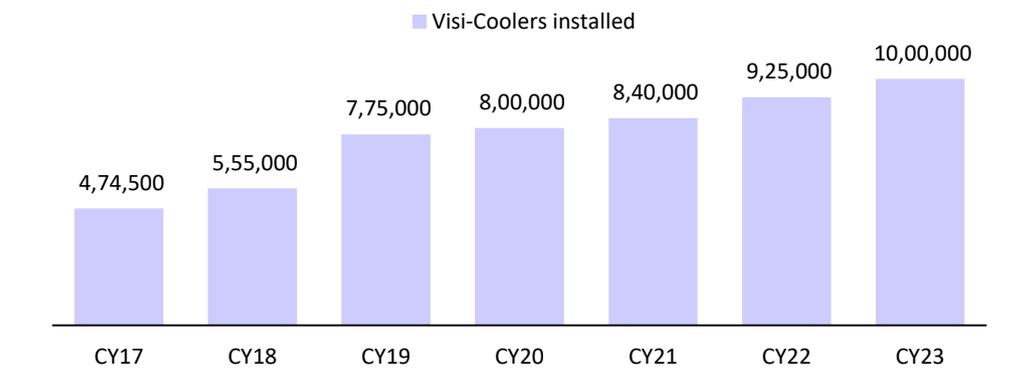
Source: Company, MOFSL

Exhibit 8: Africa snack food industry



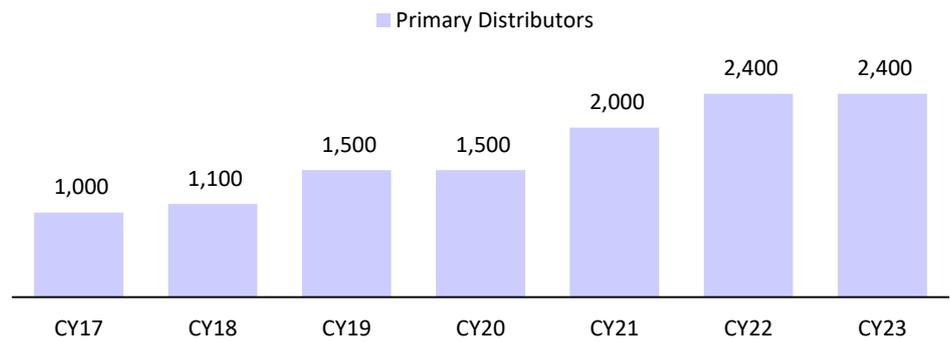
Source: Company, MOFSL

Exhibit 9: Trend of visi-coolers installed by VBL



Source: Company, MOFSL

Exhibit 10: VBL's increasing distribution network



Source: Company, MOFSL

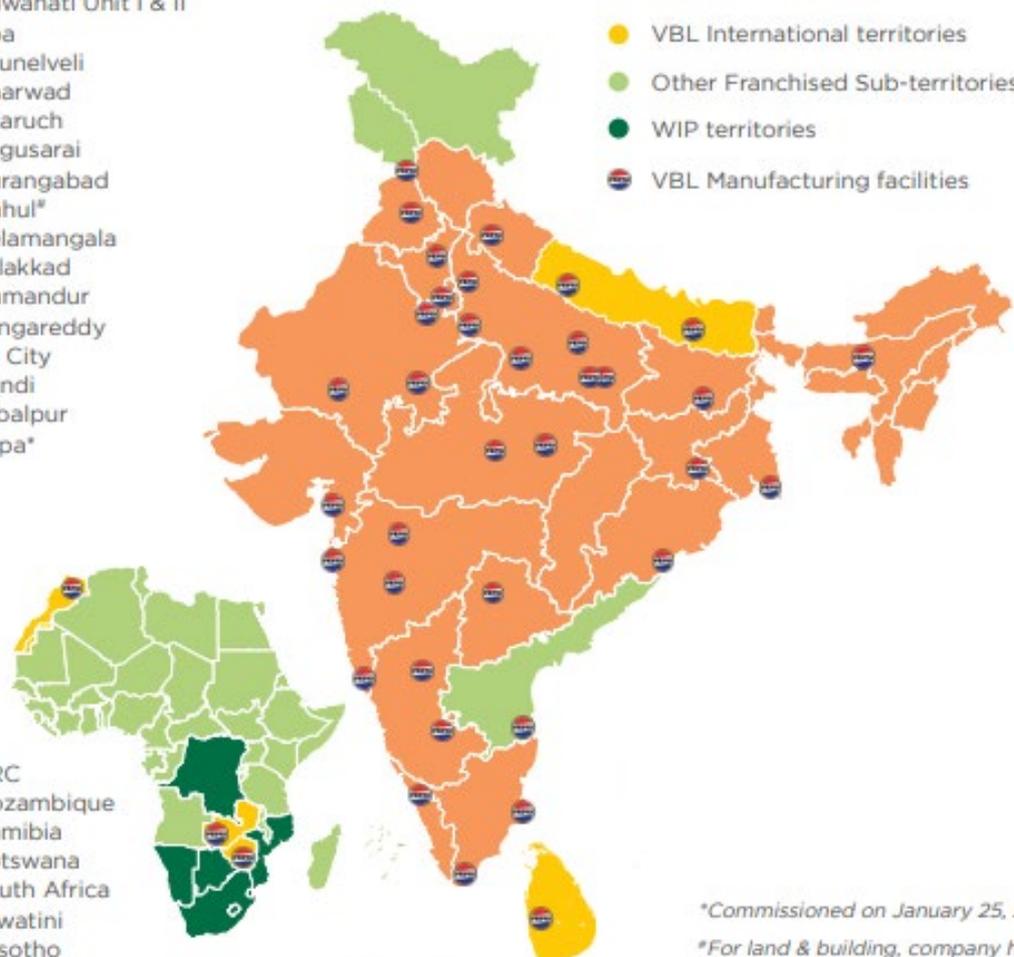
Exhibit 11: VBL's 40 state-of-the-art manufacturing facility (34 in India and 6 overseas)

Manufacturing Facilities

India

- Pathankot
- Phillaur
- Nuh
- Panipat
- Greater Noida I
- Greater Noida II
- Jainpur
- Bazpur
- Sathariya
- Sathariya II
- Kosi
- Sandila
- Jodhpur
- Bhiwadi
- Mandideep
- Jamshedpur
- Cuttack
- Kolkata
- Guwahati Unit I & II
- Goa
- Tirunelveli
- Dharwad
- Bharuch
- Begusarai
- Aurangabad
- Mahul*
- Nelamangala
- Palakkad
- Mamandur
- Sangareddy
- Sri City
- Bundi
- Jabalpur
- Supa*

- VBL India Sub-territories
- VBL International territories
- Other Franchised Sub-territories
- WIP territories
- VBL Manufacturing facilities



International

- Nepal I
- Nepal II
- Sri Lanka
- Morocco
- Zambia
- Zimbabwe
- DRC
- Mozambique
- Namibia
- Botswana
- South Africa
- Eswatini
- Lesotho

*Commissioned on January 25, 2024

*For land & building, company has short-term leasehold rights

Map not to scale

Source: Company, MOFSL

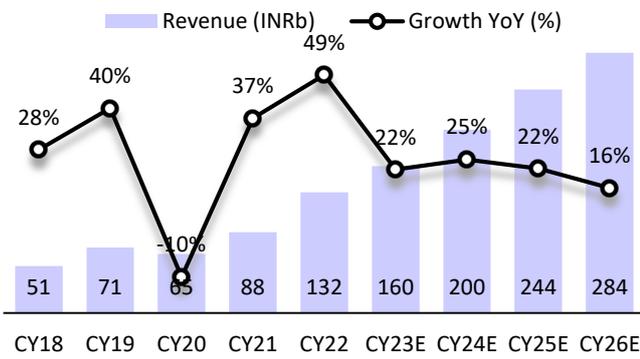
Exhibit 12: VBL's diversified product portfolio



Source: Company, MOFSL

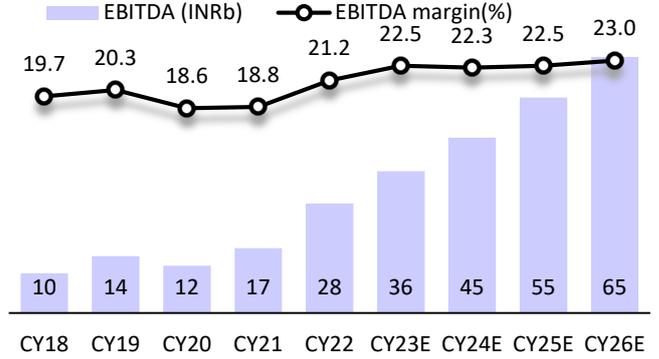
Story in Chart

Exhibit 13: Strong revenue trajectory...



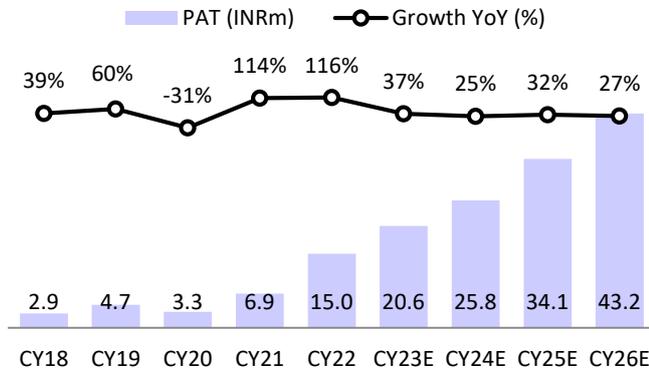
Source: Company, MOFSL

Exhibit 14: EBITDA margin trend



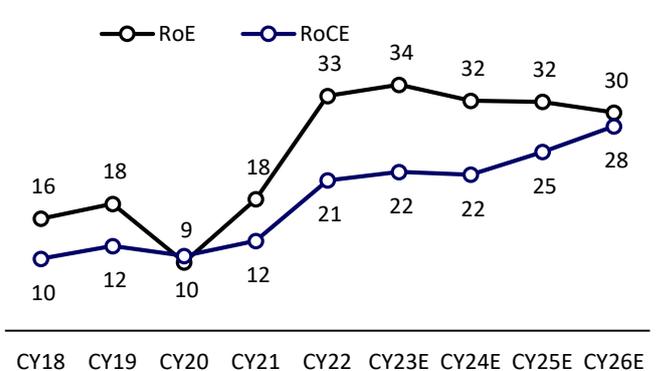
Source: Company, MOFSL

Exhibit 15: Robust earnings trajectory



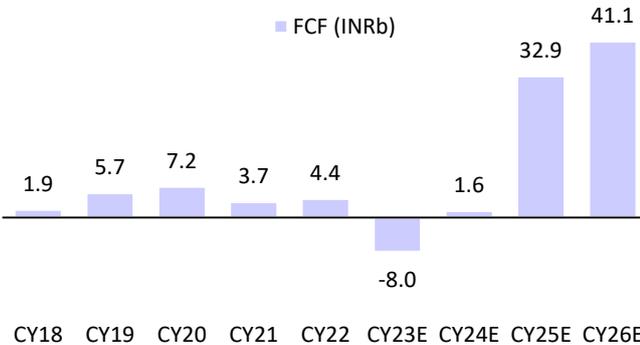
Source: Company, MOFSL

Exhibit 16: Healthy return ratios...



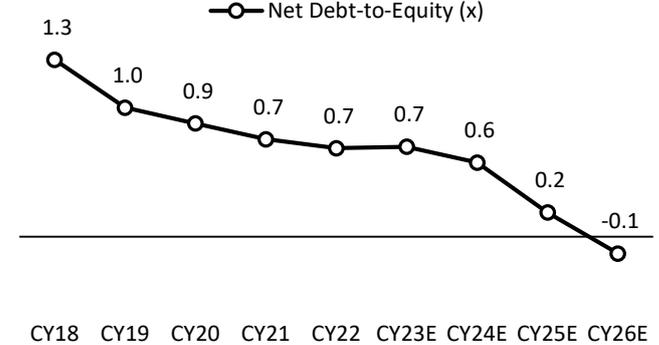
Source: Company, MOFSL

Exhibit 17: ...aiding in generating robust cash flows...



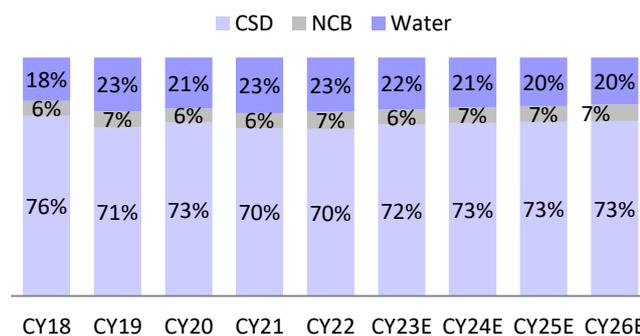
Source: Company, MOFSL

Exhibit 18: ...and achieving net debt free by CY25



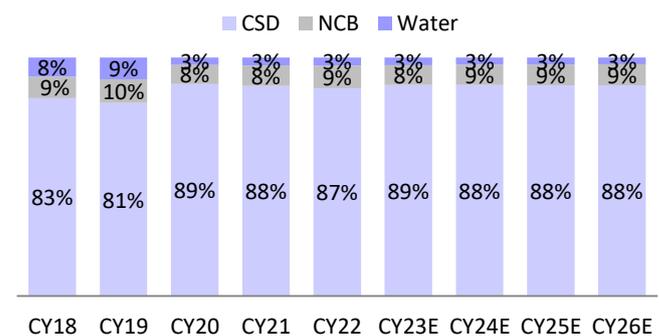
Source: Company, MOFSL

Exhibit 19: Volume mix trend (ex of BevCo)



Source: Company, MOFSL

Exhibit 20: Revenue mix trend (ex of BevCo)



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INRm)		
Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Total Income from Operations	71,296	64,501	88,232	1,31,731	1,60,426	2,00,086	2,44,245	2,84,207
Change (%)	39.7	-9.5	36.8	49.3	21.8	24.7	22.1	16.4
RM Cost	32,194	27,639	40,347	62,612	74,049	92,640	1,12,841	1,30,735
Employees Cost	8,108	8,897	10,077	12,166	14,466	17,765	21,494	24,726
Other Expenses	16,517	15,946	21,262	29,072	35,816	45,019	54,951	63,452
Total Expenditure	56,819	52,483	71,686	1,03,850	1,24,331	1,55,424	1,89,286	2,18,913
% of Sales	79.7	81.4	81.2	78.8	77.5	77.7	77.5	77.0
EBITDA	14,477	12,019	16,546	27,881	36,095	44,662	54,959	65,294
Margin (%)	20.3	18.6	18.8	21.2	22.5	22.3	22.5	23.0
Depreciation	4,886	5,287	5,313	6,172	6,809	8,758	9,824	10,374
EBIT	9,590	6,732	11,234	21,709	29,286	35,904	45,135	54,919
Int. and Finance Charges	3,096	2,811	1,847	1,861	2,681	3,441	2,397	837
Other Income	425	370	679	388	794	1,201	1,710	2,132
PBT bef. EO Exp.	6,919	4,290	10,066	20,236	27,398	33,663	44,448	56,214
EO Items	0	-665	0	0	0	0	0	0
PBT after EO Exp.	6,919	3,625	10,066	20,236	27,398	33,663	44,448	56,214
Total Tax	2,241	52	2,606	4,735	6,375	7,406	9,779	12,367
Tax Rate (%)	32.4	1.4	25.9	23.4	23.3	22.0	22.0	22.0
Share of profit from associates	44	0	0	0	-5	0	0	0
Minority Interest	32	283	520	527	459	505	555	611
Reported PAT	4,690	3,290	6,941	14,974	20,559	25,752	34,114	43,236
Adjusted PAT	4,690	3,251	6,941	14,974	20,559	25,752	34,114	43,236
Change (%)	60.1	-30.7	113.5	115.8	37.3	25.3	32.5	26.7
Margin (%)	6.6	5.0	7.9	11.4	12.8	12.9	14.0	15.2

Consolidated - Balance Sheet						(INRm)		
Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	2,887	2,887	4,330	6,496	6,496	6,496	6,496	6,496
Total Reserves	30,397	32,353	36,469	44,528	62,869	85,373	1,16,239	1,55,578
Net Worth	33,284	35,240	40,799	51,024	69,365	91,869	1,22,735	1,62,074
Minority Interest	307	648	1,168	1,131	1,482	1,986	2,542	3,152
Total Loans	34,172	32,059	33,418	36,948	51,944	53,944	25,944	1,944
Deferred Tax Liabilities	2,697	2,149	3,087	3,368	3,430	3,430	3,430	3,430
Capital Employed	70,459	70,096	78,473	92,471	1,26,221	1,51,230	1,54,651	1,70,600
Gross Block	87,203	90,086	94,420	1,06,807	1,28,385	1,73,625	1,83,625	1,93,625
Less: Accum. Deprn.	22,655	26,242	31,555	37,727	44,536	53,294	63,118	73,493
Net Fixed Assets	64,548	63,844	62,865	69,080	83,849	1,20,331	1,20,507	1,20,132
Goodwill on Consolidation	242	242	242	242	242	4,202	4,202	4,202
Capital WIP	638	668	4,966	6,066	19,222	8,222	8,222	7,222
Total Investments	0	0	0	0	211	211	211	211
Current Investments	0	0	0	0	211	211	211	211
Curr. Assets, Loans&Adv.	18,327	19,719	27,721	40,794	48,347	52,599	63,392	87,477
Inventory	8,815	9,288	14,481	19,939	21,505	26,883	32,740	37,865
Account Receivables	1,726	2,418	2,212	2,993	3,594	4,482	5,472	6,367
Cash and Bank Balance	1,711	1,901	3,366	2,853	4,599	2,225	3,198	17,667
Loans and Advances	6,076	6,113	7,661	15,009	18,649	19,008	21,982	25,579
Curr. Liability & Prov.	13,297	14,378	17,322	23,711	25,651	34,336	41,883	48,644
Account Payables	4,777	5,114	7,118	8,243	7,582	10,645	12,965	14,994
Other Current Liabilities	6,517	6,893	7,622	13,135	15,117	20,009	24,424	28,421
Provisions	2,003	2,371	2,583	2,333	2,952	3,682	4,494	5,229
Net Current Assets	5,031	5,342	10,399	17,083	22,696	18,263	21,509	38,833
Appl. of Funds	70,459	70,096	78,473	92,471	1,26,221	1,51,230	1,54,651	1,70,600

Financials and valuations

Ratios

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)								
EPS	3.6	2.5	5.3	11.5	15.8	19.8	26.3	33.3
Cash EPS	7.4	6.6	9.4	16.3	21.1	26.6	33.8	41.3
BV/Share	25.6	27.1	31.4	39.3	53.4	70.7	94.5	124.7
DPS	0.5	0.6	0.8	1.7	2.5	2.5	2.5	3.0
Payout (%)	16.7	21.9	15.6	15.2	15.8	12.6	9.5	9.0
Valuation (x)								
P/E	391.7	565.1	264.7	122.7	89.4	71.3	53.9	42.5
Cash P/E	191.8	215.2	149.9	86.9	67.1	53.2	41.8	34.3
P/BV	55.2	52.1	45.0	36.0	26.5	20.0	15.0	11.3
EV/Sales	26.2	29.0	21.2	14.2	11.8	9.4	7.6	6.4
EV/EBITDA	129.2	155.4	112.9	67.1	52.2	42.3	33.9	27.9
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	4.4	5.5	2.8	3.4	-6.2	1.2	25.3	31.6
Return Ratios (%)								
RoE	17.6	9.5	18.3	32.6	34.2	31.9	31.8	30.4
RoCE	11.8	10.4	12.5	20.9	22.1	21.7	24.8	28.5
RoIC	11.5	9.8	12.1	21.6	24.2	23.1	24.8	29.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.7	0.9	1.2	1.2	1.2	1.3	1.5
Asset Turnover (x)	1.0	0.9	1.1	1.4	1.3	1.3	1.6	1.7
Inventory (Days)	45	53	60	55	49	49	49	49
Debtor (Days)	9	14	9	8	8	8	8	8
Creditor (Days)	24	29	29	23	17	19	19	19
Leverage Ratio (x)								
Current Ratio	1.4	1.4	1.6	1.7	1.9	1.5	1.5	1.8
Interest Cover Ratio	3.1	2.4	6.1	11.7	10.9	10.4	18.8	65.6
Net Debt/Equity	1.0	0.9	0.7	0.7	0.7	0.6	0.2	-0.1

Consolidated - Cash Flow Statement

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
(INRm)								
OP/(Loss) before Tax	6,919	3,625	10,066	20,236	27,398	33,663	44,448	56,214
Depreciation	4,826	5,287	5,313	6,172	6,809	8,758	9,824	10,374
Interest & Finance Charges	2,948	2,441	1,168	1,473	2,681	2,241	687	-1,295
Direct Taxes Paid	-1,201	-52	-2,606	-4,735	-6,679	-7,406	-9,779	-12,367
(Inc)/Dec in WC	-827	-1,181	-1,627	-5,246	-6,735	2,059	-2,272	-2,856
CF from Operations	12,665	10,120	12,314	17,900	23,474	39,315	42,908	50,071
Others	411	0	0	0	434	505	0	0
CF from Operating incl EO	13,076	10,120	12,314	17,900	23,908	39,820	42,908	50,071
(Inc)/Dec in FA	-7,331	-2,913	-8,632	-13,487	-31,939	-38,200	-10,000	-9,000
Free Cash Flow	5,745	7,207	3,682	4,414	-8,031	1,620	32,908	41,071
(Pur)/Sale of Investments	0	0	0	0	-216	0	0	0
Others	-15,862	-1,798	-1,474	-3,559	-744	1,201	1,710	2,132
CF from Investments	-23,192	-4,711	-10,106	-17,046	-32,899	-36,999	-8,290	-6,868
Issue of Shares	9,002	0	0	0	44	0	0	0
Inc/(Dec) in Debt	6,487	-2,113	1,359	3,530	15,064	2,000	-28,000	-24,000
Interest Paid	-3,011	-2,811	-1,847	-1,861	-2,694	-3,441	-2,397	-837
Dividend Paid	-690	-722	-1,083	-2,274	-2,273	-3,248	-3,248	-3,898
Others	-895	427	829	-763	596	-505	0	0
CF from Fin. Activity	10,893	-5,219	-742	-1,368	10,737	-5,194	-33,645	-28,734
Inc/Dec of Cash	776	190	1,466	-514	1,746	-2,374	973	14,468
Opening Balance	935	1,711	1,901	3,367	2,853	4,599	2,225	3,198
Closing Balance	1,711	1,901	3,367	2,853	4,599	2,225	3,198	17,667

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Explanation of Investment Rating	
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